

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
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FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC PRIORITY 8578
INFO AMEMBASSY COPENHAGEN
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COMICEDEFOR KEFLAVIK IC
USMISSION USNATO
CINCLANT NORFOLK VA
CINCEUR VAIHINGEN GE

C O N F I D E N T I A L SECTION 1 OF 2 REYKJAVIK 0954

E.O. 11652: GDS
TAGS: PINT, IC
SUBJECT: INTERPARTY RIFTS REMAIN WIDE AS FORMAL COALITION TLAKS
BEGIN

REF: REYKJAVIK 0904 DTG 121652Z JUL 78

SUMMARY: FOLLOWING REJECTION BY PEOPLE'S ALLIANCE (PA) OF
SOCIAL DEMOCRATIC PARTY (SDP) BID TO DISCUSS THREE-PARTY
COALITION WITH INDEPENDENTS, FORMAL TALKS BETWEEN PA, SDP,
AND PROGRESSIVE PARTY ARE NOW UNDERWAY. IT IS STILL TOO
EARLY TO SPECULATE WHETHER THESE THREE PARTIES WILL BE ABLE
TO BRIDGE WIDE GAPS SEPARATING THEM. NEGOTIATIONS ARE
ONLY NOW BEGINNING TO GET DOWN TO SPECIFICS.
PERSONALITIES AND PARTY ANTAGONISMS HAVE MADE PROGRESS DIFFICULT,
BUT NOW THAT REPRESENTATIVES FROM ALL THREE POTENTIAL
PARTNERS ARE SITTING AROUND BARGAINING TABLE, THEY WILL
BE FORCED TO DISCUSS INTRACTABLE ECONOMIC ISSUES WITH
WHICH NEXT GOVERNMENT WILL HAVE TO DEAL. AT THIS
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STAGE, FORMATION OF NEW GOVERNMENT STILL APPEARS SOME TIME
AWAY. END SUMMARY.

1. DURING PAST WEEK, AS FORMAL NEGOTIATIONS ON NEW
COALITION BEGAN, PARTY POSITIONS WITH RESPECT TO ISSUES
DIVIDING PARTIES HAVE BECOME MORE CLEARLY DEFINED. EACH
PARTY REMAINS UNCERTAIN AS TO WHETHER IT SHOULD ENTER

GOVERNMENT LEST IT COMPROMISE ITS PRINCIPLES AND POSITIONS.
NONETHELESS, FIRST SERIOUS ROUND OF TALKS IS UNDERWAY.

2. SOON AFTER SOCIAL DEMOCRATIC PARTY (SDP) CHAIRMAN BENEDIKT GRONDAL RECEIVED MANDATE FROM PRESIDENT ELDJARN (REFTEL), HIS OFFER TO DISCUSS COALITION WITH INDEPENDENCE PARTY (IP) AND PEOPLE'S ALLIANCE (PA) WAS REJECTED BY PA WHICH IMMEDIATELY RULED OUT COOPERATION WITH IP AND CALLED INSTEAD FOR LEFTIST COALITION INCLUDING PROGRESSIVES (PP). SDP GAVE IN ON POINT AND PA-SDP-PP DISCUSSIONS BEGAN JULY 19.

3. OF POST-ELECTORAL EVENTS SO FAR, PERHAPS MOST SIGNIFICANT HAS BEEN SLIGHT BUT PERCEPTIBLE SHIFT OF PROGRESSIVE PARTY AWAY FROM POLICY OF BENEVOLENT ABSTENTION FROM NEW GOVERNMENT INITIALLY PROMULGATED BY PP CHAIRMAN OLAFUR JOHANNESSEN. FOLLOWING ELECTION IN WHICH PP STRENGTH DROPPED FROM 17 TO 12 ALTHING SEATS, JOHANNESSEN SAID PROGRESSIVES WERE NOT INTERESTED IN JOINING NEW GOVERNMENT AND THAT "VICTORS" SHOULD NOW BE GIVEN OPPORTUNITY TO SHOW THAT THEY CAN SOLVE COUNTRY'S PROBLEMS. THOUGH JOHANNESSEN IS OSTENSIBLY STILL RELUCTANT TO HAVE PP PARTICIPATE IN NEXT GOVERNMENT, IN RESPONSE TO REQUEST BY SOME PROGRESSIVES HE HAS ALLOWED MEMBERS OF PARTY TO TALK WITH SDP AND PA. PRESUMABLY THIS IS WITH VIEW TO SEEING WHETHER THERE WOULD BE ANY ADVANTAGE IN PROGRESSIVES JOINING COALITION OF THE LEFT.
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4. ONE OF THE CENTRAL DIFFICULTIES SDP LEADER GRONDAL FACES IN COALITION TALKS IS ANIMOSITY BETWEEN SDP AND PA. PEOPLE'S ALLIANCE HAS, AT LEAST FOR NOW, RULED OUT ANY COOPERATION WITH IP, AND THIS HAS DISCONCERTED SOME MEMBERS OF SDP ALTHING FACTION WHICH HAD SOUGHT SDP-PA-IP COALITION. SOCIAL DEMOCRATS, FEARING THAT THEIR LEFTIST CREDENTIALS WOULD BE COMPROMISED IN TWO-PARTY COALITION WITH IP, WANTED PA TO PARTICIPATE SO THAT PA AND SDP COULD SHARE RESPONSIBILITY FOR TOUGH DECISIONS NEXT GOVERNMENT MAY FEEL COMPELLED TO MAKE. DESIRE ON PART OF SOCIAL DEMOCRATS TO LINK UP WITH PA HAS SO FAR BEEN STRONG ENOUGH THAT THEY HAVE ACCEPTED THREE PARTY TALKS WITH PP, DESPITE SHARP PERSONALITY CONFLICTS BETWEEN PROGRESSIVES AND SDP. IN MIND OF SOME CRITICS, GRONDAL HAS WEAKENED HIS NEGOTIATING POSITION BY ALLOWING PA TO DICTATE BASIC CONDITION FOR TALKS (I.E., EXCLUSION OF IP FROM ANY PA-SDP COALITION). RIVALRY BETWEEN PA AND SDP FOR LEFTIST AND LABOR VOTE HAS MADE TASK OF COALITION-BUILDING EVEN MORE COMPLICATED. BECAUSE IT REGARDS ITSELF AS ONLY GENUINE SPOKESMAN FOR LEFT, PA WOULD HAVE TO SWALLOW HARD TO ACCEPT MEMBERSHIP IN ANY NEW GOVERNMENT HEADED BY SDP. AS RESULT, WITHOUT SERIOUS CON-

CESSIONS ON BOTH SIDES REGARDING DIVISION OF MINISTRIES AS WELL
AS POLICIES, SUCCESS OF CURRENT THREE-SIDED TALKS IS QUESTION-
ABLE.

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C O N F I D E N T I A L SECTION 2 OF 2 REYKJAVIK 0954

5. WHEN SDP, PA AND PP REPRESENTATIVES MET JULY 19, AGREEMENT
WAS REACHED ON NULLIFICATION OF LAW ON ECONOMIC MEASURES THAT
HAS PROVEN TO BE BOTH UNPOPULAR AND INEFFECTUAL IN FACE OF
ICELAND'S SEVERE ECONOMIC PROBLEMS. LAW, PASSED IN FEBRUARY
AND MODIFIED IN MAY, PERMITTED APPLICATION OF COST-OF-LIVING
WAGE INCREASES TO VIRTUALLY ALL CATEGORIES OF WORKERS,
EXCLUDING ONLY HIGHEST PAID. NEVERTHELESS, LAW PROBABLY COST
IP-PP GOVERNMENT THE ELECTION. ALTHOUGH RESCINDING LAW MIGHT
BE POPULAR MEASURE, WE UNDERSTAND THERE IS NOW SOME QUESTION
WITHIN SDP OF WHETHER IT SHOULD HAVE SUPPORTED REPEAL WITHOUT
REGARD TO INFLATIONARY IMPACT.

6. WITH EXCEPTION OF ISSUE OF ICELAND DEFENSE
FORCE--IN WHICH WE UNDERSTAND PA ADMITTED IT COULD NOT
EXPECT ANY BASIC CHANGES IN EXISTING POLICY--PARTIES RE-
MAINED FAR APART ON BASIC ISSUES. PAS HAS COME OUT AGAINST
ANY KIND OF WAGE RESTRAINT, DEVALUATION, OR INCREASE IN
INTEREST RATES. WITH INFLATION RUNNING AT 40 PERCENT AND FISH
FREEZING PLANTS, ICELAND'S PRINCIPAL FOREIGN EXCHANGE EARNER,
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IN SEVER TROUBLE FROM SPIRALING LABOR AND RAW MATERIAL COSTS,
IT IS DIFFICULT TO SEE HOW SDP COULD ACCEPT THIS STANCE.

7. INCREASING ATTENTION HAS BEEN GIVEN TO POSSIBILITY OF
ONE-PARTY SDP GOVERNMENT WHICH WOULD OBTAIN TACIT SUPPORT FROM
INDEPENDENCE PARTY. ALTHOUGH THIS DID OCCUR IN 1959, IT WAS
QUICKLY FOLLOWED BY SDP-IP GOVERNMENT, AND IF SOCIAL DEMOCRATS
AGAIN WERE PERMITTED TO FORM INORITY GOVERNMENT, IT WOULD
ALMOST CERTAINLY BE SHORT-LIVED AS WELL. POSSIBILITY OF SUCH
GOVERNMENT IS, HOWEVER, RATHER REMOTE. FOR PRESENT,
ONE SOURCE CLOSE TO SDP INNER CIRCLES HAS TOLD US GRONDAL WILL
PROBABLY FIND HIMSELF UNABLE TO CONSTITUTE GOVERNMENT AND
WILL RETURN HIS MANDATE TO PRESIDENT, PERHPAS BY END OF NEXT
WEEK, IN WHICH CASE PRESIDENT WOULD, ACCORDING TO SOURCE,
TURN IT OVER TO GEIR HALLGRIMSSON.
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